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HOW DONALD TRUMP OVERREACHED

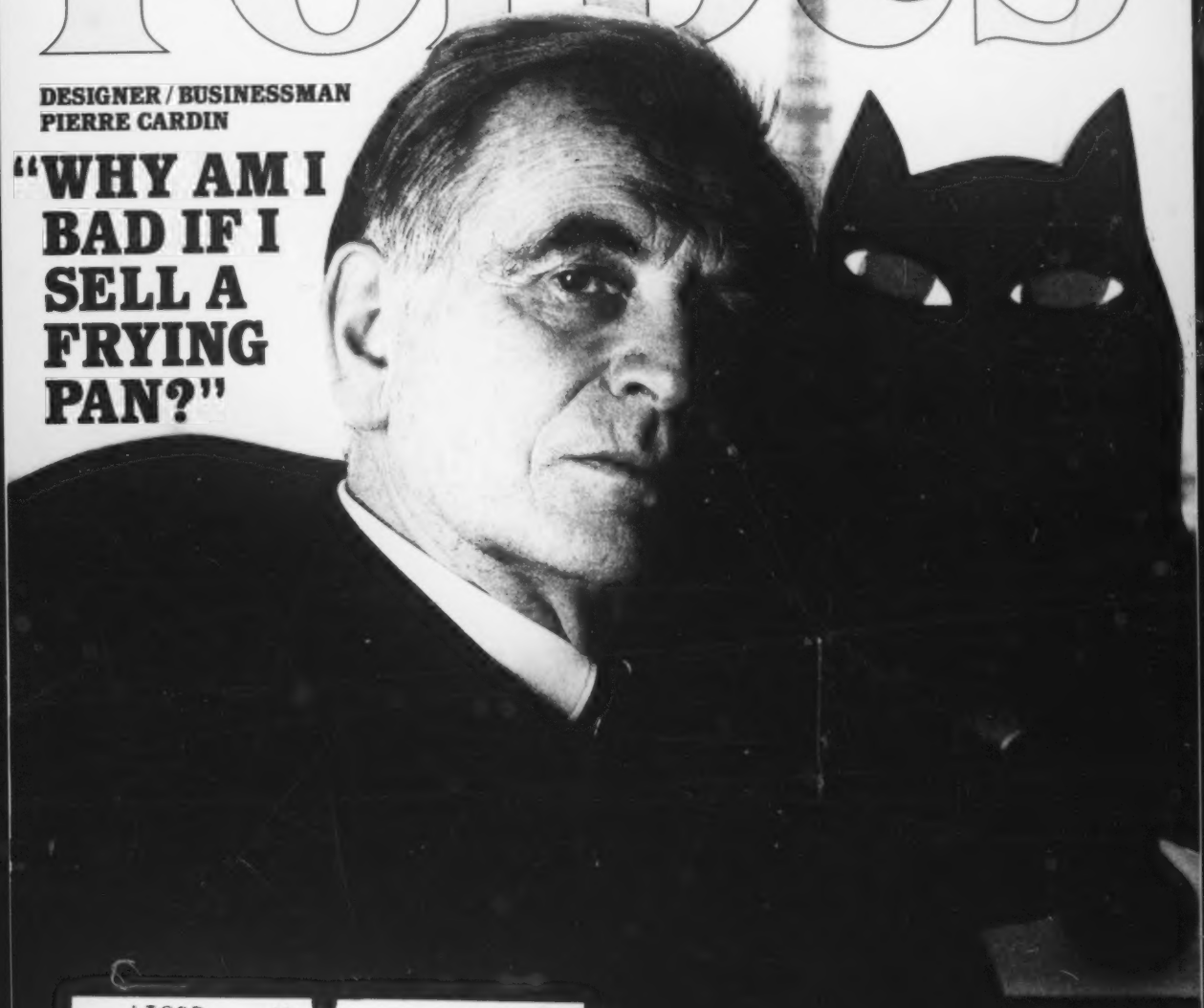
THE NEW SURGE IN METALS PRICES

THE SMART TURNAROUND IN LOW-TECH COMPANIES

MAY 2, 1988

THREE DOLLARS SEVENTY-FIVE CENTS

Forbes



DESIGNER / BUSINESSMAN
PIERRE CARDIN

"WHY AM I BAD IF I SELL A FRYING PAN?"

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MAY 2, 1988
VOLUME 141
NUMBER 10

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May 2, 1988 Volume 141 Number 10 Forbes (ISSN 0015 6914) is published biweekly except weekly during two weeks in April and two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Canadian second-class postage paid, permit number 9490. Subscription $45 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011.

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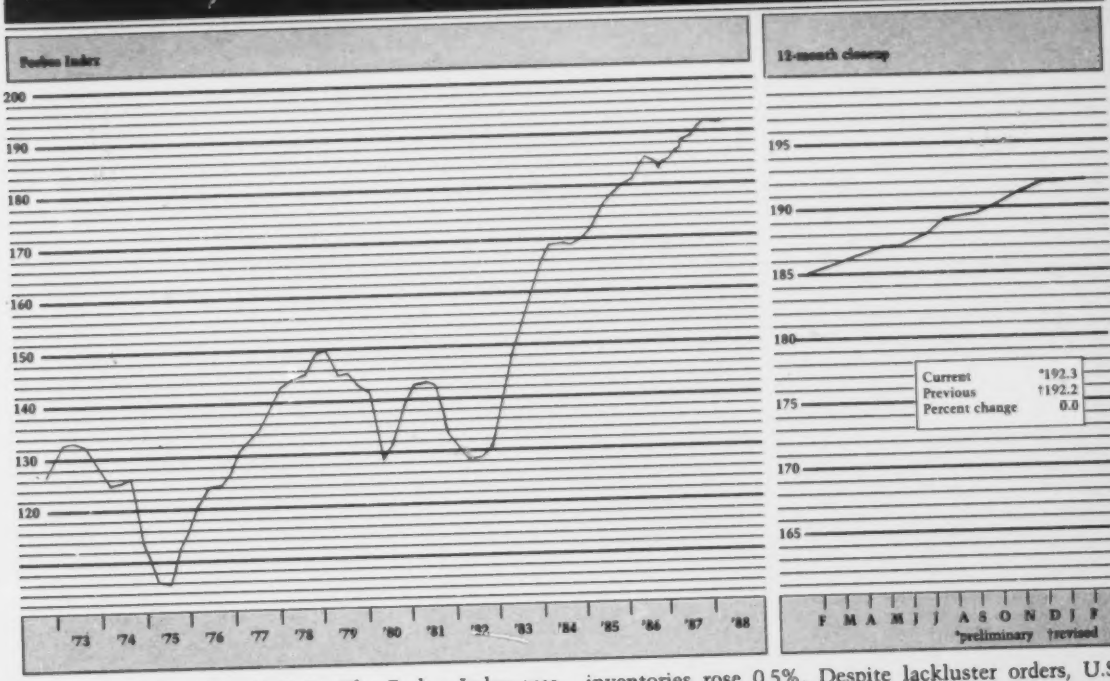
The Forbes Index



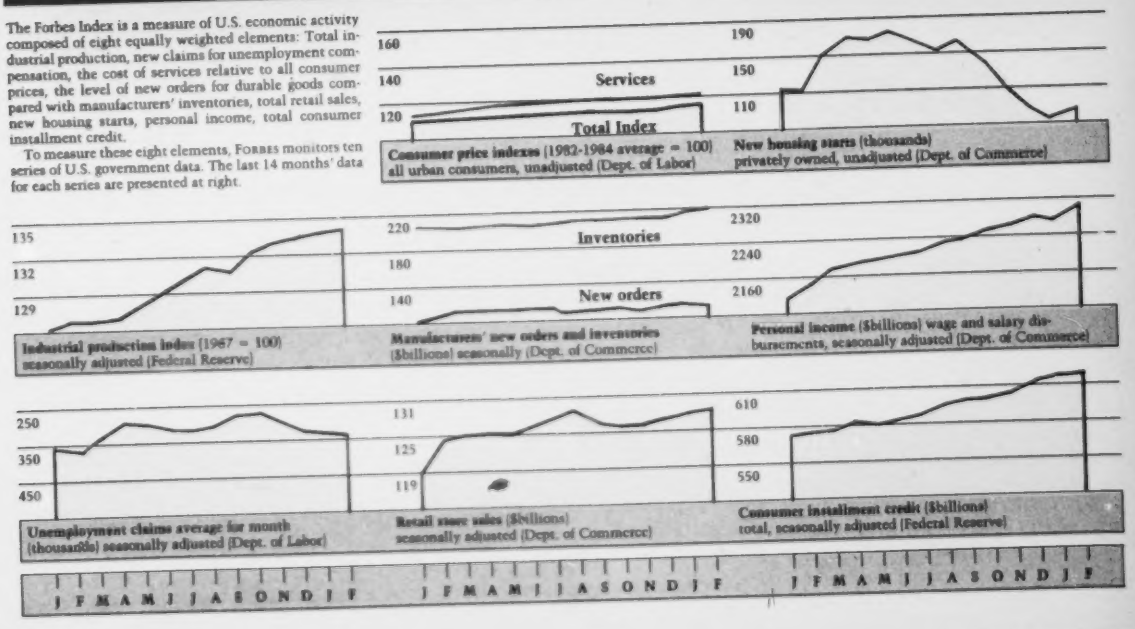
Consumers are still optimistic. The Forbes Index was virtually unchanged in February, but the consumer installment credit component recorded its ninth straight monthly advance, up 0.9%. Since May 1987 a spending spree has pushed this component up 7.1%, to a record $625 billion, ahead of the growth in personal income.

Manufacturers' new orders fell 1% in February, while inventories rose 0.5%. Despite lackluster orders, U.S. industry appears to be getting healthier: Industrial production, which measures output at the nation's factories, mines and utilities, has increased for five consecutive months. Some industries (e.g., steel) are improving under the influence of trade protectionism, a weak dollar and cost-cutting steps taken when the dollar was stronger.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


160
140
120
Services
Total Index
Consumer price indexes (1982-1984 average = 100) all urban consumers, unadjusted (Dept. of Labor)
190
150
110
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
135
132
129
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
220
180
140
Inventories
New orders
Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)
2320
2240
2160
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
250
350
450
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
131
125
119
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
610
580
550
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
J F M A M J J A S O N D J F
J F M A M J J A S O N D J F
J F M A M J J A S O N D J F

would just push in more venom. People who are allergic should avoid brightly colored clothing and perfume when they're going to be outside, and not walk barefoot in grass.

Household pets are also susceptible to allergic reactions to insect stings. Dr. Gus Thornton, chief of staff at the Angell Memorial veterinary hospital in Boston, advises the same caution for animals against insects as for humans. If a pet's head or neck swells, get the animal to the vet right away for a shot of antihistamine or cortisone. And ask the vet for some antihistamines to keep on hand in case of future stings.—**Francesca Lunzer**

Sotheby's Art Market Trends

Index sectors	March 1988	One month ago	One year ago	Two years ago	Five years ago	One month % change	One year % change	Two year % change	Five years % change	Five years average annual % change
Old Master paintings	373	373	329	293	210	nil	+13.4	+27.3	+77.6	+12.2
19th-century European paintings	333	333	284	249	185	nil	+17.3	+33.7	+80.0	+12.5
Impressionist & Post-impressionist art	723	723	521	380	267	nil	+38.8	+90.3	+170.8	+22.0
Modern paintings (1900-1950)	757	757	544	364	245	nil	+39.2	+108.0	+209.0	+25.3
Contemporary art (1945 onward)	609	609	551	497	342	nil	+10.5	+22.5	+78.1	+12.2
American paintings (1800–pre-WWII)	871	871	698	667	450	nil	+24.8	+30.6	+93.6	+14.1
Continental ceramics	407	407	290	284	266	nil	+40.3	+43.3	+53.0	+ 8.9
Chinese ceramics	581	581	526	486	440	nil	+10.5	+19.5	+32.0	+ 5.7
English silver	388	388	343	314	209	nil	+13.1	+23.6	+85.6	+13.2
Continental silver	220	220	201	181	139	nil	+ 9.5	+21.5	+58.3	+ 9.6
American furniture	469	469	451	333	239	nil	+ 4.0	+40.8	+96.2	+14.4
French & Continental furniture	324	319	299	273	239	+1.6	+ 8.4	+18.7	+35.6	+ 6.3
English furniture	657	657	523	419	267	nil	+25.6	+56.8	+146.1	+19.7
Aggregate index*	517	517	419	345	256	nil	+23.4	+49.9	+102.0	+15.1

Basis: 1975 = 100 ($). ©Sotheby's 1988

*Contemporary art was added to the Art Index in September 1987. The aggregate index excludes this category prior to that date.

Sotheby's Art Market Trends reflect subjective analyses and opinions of Sotheby's art experts, based on auction sales and other information deemed relevant. Nothing in Sotheby's Art Market Trends is intended as investment advice or as a prediction or guarantee of future performance or otherwise.

Monthly highlights

Major sales of Impressionist and modern art in London produced strong results across a broad range of items. Fierce bidding for a painting by Modigliani, "Mario," sent the price to double the estimate at $9 million, while "Les blanchisseuses portant du linge" by Edgar Degas, originally considered to be the star lot, achieved $7.4 million. In general, prices were the same in sterling terms as they were at the previous round of major sales in London last December, implying a small rise in dollar terms. This could partially account for the extremely low volume of American buying.

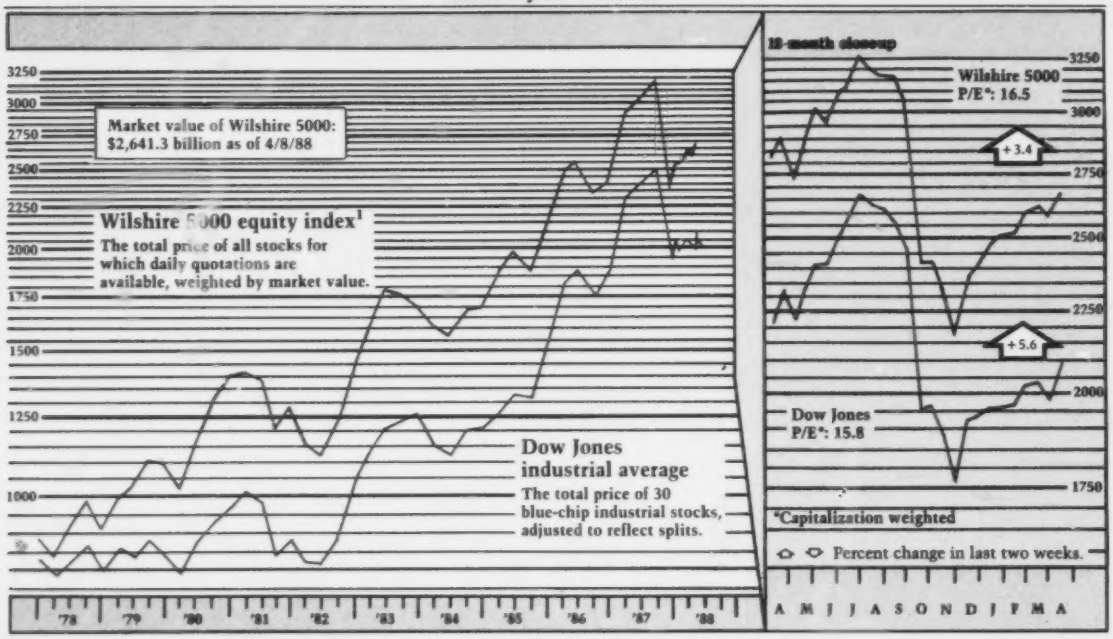
Later in the month the major London auction houses held specialized sales of Scandinavian art immediately prior to the general sales of 19th-century paintings. Well over 500 works were offered for sale. Results fell short of expectations, with 25% unsold, but the net total of over $13 million indicates widening interest. Demand for Scandinavian art outside Scandinavia was almost nonexistent just a few years ago. Two highlights: A study of two girls in a wood by the popular artist Anders Zorn fetched $908,000, and a painting by Carl Larsson of his wife in a studio sold for $485,000.

Empire armchair, sold for $44,000

European bidders in New York, taking advantage of the strength of their currencies, were active at a sale of French and Continental furniture. The sale totaled $1.5 million, with just 3% unsold. Bidding soared for the top lot, a French Empire chair, when a South American and a British collector, who owned an identical chair, competed fiercely, pushing the price to $44,000 against a high estimate of $5,000. The South American got the chair.

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen


Market value of Wilshire 5000: $2,641.3 billion as of 4/8/88
Wilshire 5000 equity index[1]
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
12-month closeup
Wilshire 5000 P/E*: 16.5
Dow Jones P/E*: 15.8
+3.4
+5.6
*Capitalization weighted
Percent change in last two weeks.
3250
3000
2750
2500
2250
2000
1750
1500
1250
1000
'78 '79 '80 '81 '82 '83 '84 '85 '86 '87 '88
A M J J A S O N D J F M A

Bull market resuming? Aided by a steady dollar and strong earnings reports, the Dow regained more lost ground over the past two weeks with a healthy 5.6% advance. The 111-point two-week increase brought the Dow to its highest level since Meltdown Monday. The overall market, as measured by the Wilshire index of 5,700 stocks, finished the last ten trading days just 0.4% below a Mar. 18 postcrash high.

In Tokyo the Nikkei index hit an alltime peak. In comparison, the U.S. Dow industrials are still off more than 23% from their August 1987 high. Are U.S. stocks bargains? The Wilshire index is selling at 16.5 times latest 12-month earnings, versus a precrash P/E of 23 and a current Nikkei P/E of 84. But before the bull market began in August of 1982, the Wilshire multiple was a much leaner 7. U.S. stocks are cheaper, but not cheap.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	1.5	1.6	2.7	1.7	1.5	1.7
in last 52 weeks	–8.8	–8.3	–10.6	–8.3	–11.1	–11.4

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	1.9	6.3	4.3	2.4	2.3	3.1	1.0	5.9	2.6	3.0	1.9	5.6
in last 52 weeks	–3.3	15.2	12.6	3.4	–6.6	–4.7	–2.3	19.2	11.7	3.1	–1.0	13.0

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

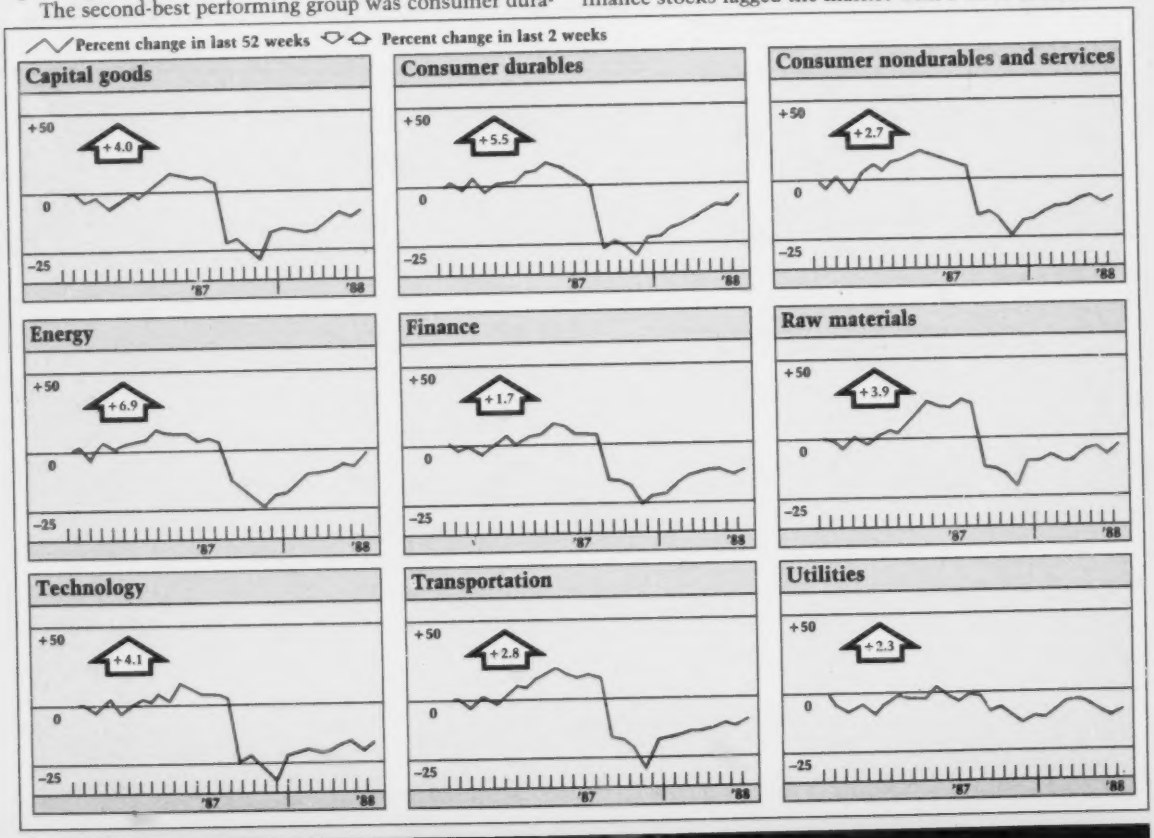
Note: All data for periods ending 4/8/88. Prepared by Wilshire Associates, Santa Monica, Calif.

Gay French

Where the Action Is

Energy stock prices rise on the prospect of tighter oil supplies. News that OPEC plans to discuss production cuts with non-OPEC producers helped the energy sector advance 6.9% in the last two weeks. Rowan Cos., Halliburton and Dresser Industries—all oilfield service firms—posted gains of 12% to 14%.

The second-best performing group was consumer durables, which rose 5.5%. A brightening sales picture for domestic autos helped Ford Motor gain 11% and General Motors 8.7%. Goodyear Tire rose 9%, while Maytag, which had been boosted by the takeover battle surrounding appliance-maker Roper, fell 8.6%. Golden West Financial and Merchants Bank of New York gained 18%, but finance stocks lagged the market with a 1.7% increase.



What the Analysts Think

Energy earnings estimates fell, primarily because of lower forecasts for natural gas pipeline companies. IBES reports that as of mid-March the average 1988 estimate for gas pipeline firms fell over 10%. Five estimates were cut in this sector for every one that was raised. The 1988 forecast for energy fell 1.3% in the past four weeks.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.54	15.3
1988 estimates	3.52	11.1
1989 estimates	3.93	10.0

Rank based on change in estimate	Sector	Estimated 1988 EPS	Estimated 1988 P/E	% change in 1988 estimate in 2 weeks	% change in 1988 estimate in 4 weeks
1	Consumer durables	$3.94	13.9	1.53%	2.37%
2	Raw materials	2.95	11.7	0.67	1.61
3	Transportation	2.44	12.0	0.63	0.36
4	Capital goods	2.52	15.3	0.53	0.68
5	Utilities	2.44	9.8	0.00	-0.54
6	Consumer nondurables	2.55	13.3	-0.04	0.05
7	Technology	2.81	11.8	-0.07	-0.15
8	Finance	3.50	7.8	-0.69	-1.77
9	Energy	2.79	14.1	-0.78	-1.28

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 4/8/88. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.

"Clone" funds carry a popular name. But they don't always share their successful parent's manager or results.

Son of Windsor

By Ruth Simon

THE VANGUARD WINDSOR FUND has been impressively run by Wellington Management's John Neff for 24 years—impressively enough to have attracted $5.1 billion worth of customers. But Neff and Vanguard Chairman John Bogle know you can have too much of a good thing. Winning bets on small companies don't budge a billion-dollar fund. Also, Windsor was running out of things to buy, confronted as it was with a federal limit of 5% on how much of a company's stock it can own. So Vanguard effectively closed Windsor three years ago and tapped Barrow, Hanley, Mewhinney & Strauss to start managing a Windsor II.

Like Hollywood producers, mutual fund sponsors have tried to attract customers with new versions of their biggest hits. The results, known as "clone" funds, have included box office smashes such as Windsor II, Nicholas II and Pioneer Three. But what's the advantage of the clone for the investor?

There isn't much, if the manager is the same and the style is the same, says Bogle. "Presumably the same manager would like the same stocks, buy them in the same amount and get the same performance," he says. "I'd be hard-pressed to understand why it would make any sense" to have two funds instead of one.

What's the point if the manager is different? Bogle might have a harder time answering that, but salesmanship may be a factor. Windsor has a name as a winner, and calling the new fund Windsor II rather than Barrow, Hanley, Mewhinney & Strauss Fund was the best way to capitalize on it.

John Segal

Both Windsor Funds buy stocks with low P/E ratios, and they have 14 common holdings, including Boeing, Chrysler and IBM. But over the long haul the older fund, which recently began accepting new investments from existing shareholders, has done slightly better, with an average annual return of 15% since June 30, 1985, versus 13.6% for Windsor II.

In investing, as in theater, it pays to look beyond the original review. Clone funds don't always have the same manager or strategy as their parent. And while some clones have closely tracked or even outperformed the original fund, others have not held up nearly so well. "It's really a mixed bag," says Gerald Perritt, editor of the *Mutual Fund Letter*.

A member of FORBES' honor roll for the past six years, the Nicholas Fund spawned Nicholas II in 1983 and Nicholas Limited Edition last May. "As assets grew, it became harder and harder to make stock commitments meaningful," explains Albert Nicholas, whose $1.1 billion Nicholas Fund invests in small- and medium-capitalization growth stocks. Solution: Put more small stocks in one fund, large ones in another. Although such favorites as International Dairy Queen and Foremost Corp. of America show up in all three portfolios, the newer funds lean more to small companies. Market weighting also varies: On Mar. 31, 1987, Nicholas II had 7% of its assets in cash, versus 31% for Nicholas. Since Nicholas II was created in October 1983, it is up an average 18.5%, against 13.3% for Nicholas.

"A big fund is like a riverboat. You have to start turning it before you come to a bend in the river," explains Fidelity portfolio manager George Vanderheiden, who manages Destiny I and, since 1985, Destiny II. "When I was first starting up Destiny II, I put 100,000 shares of an electronics high-flier called Miniscribe into big Destiny and about 2,000 into little Destiny. It meant [a gain of] 1 cent per share in big Destiny and about 15 cents in the little fund." Vanderheiden now puts

Same name, different game

A new fund can pick up a lot of marketing pizzazz from its famous namesake. But performance doesn't rub off so easily.

			Clone[1]	
Fund	Assets[2] (millions)	12-month[3] total return	Assets[2] (millions)	12-month[3] total return
Vanguard Explorer	$262	–8.2%	$77	–13.6%
Fidelity Destiny I	1,221	–7.1	45	–5.9
Nicholas	1,029	–4.5	340	–3.2
Pioneer II	3,282	–7.5	531	–11.0
Templeton Global I	236	–10.7	424	–10.4
Vanguard Windsor	4,565	–5.2	1,235	–8.9

[1]The clone of Pioneer II is Pioneer Three. For all other funds, the clone takes the original name and adds the numeral II to it. [2]As of 12/31/87. [3]For period ending 3/24/88. *Source: Lipper Analytical Services*

more small caps such as Ply Gem Industries Inc. in Destiny II or his even smaller Plymouth Growth Opportunities fund. The result? Destiny II's average annual return since the end of 1985, 34.1%, compares with 14.8% for Destiny I.

Does this product differentiation help investors? On average, not a whit. After all, the weighted average performance of three funds is simply the performance that the manager would have had by combining the three into one big fund. But splitting a portfolio into three piles does help the manager. It gives him three shots at the honor roll.

Not all clones do better than their parent, however. Pioneer Three lost 11% of its value during the 12 months ending Mar. 24, while the original Pioneer Fund was off just 3.7% during that same period. Pioneer II, meanwhile, fell 7.5%. Why the big gap? Different managers and radically different portfolios. Pioneer II, for instance, puts 10% to 25% of its assets in foreign securities, while Pioneer Three invests only in stocks with a market cap of less than $750 million, which lagged the market last year.

Don't pick a fund by its name. Look at the manager and at the portfolio. ■

When buying a fund, pay attention to expense ratios. When buying a closed-end, pay particular attention.

Consider the costs

By Jonathan Clements

PERFORMANCE MAY BE hard to predict from one year to the next, but expense ratios do at least have the virtue of consistency. If a fund ran up costs equal to 3% of assets last year, it stands a good chance of costing a lot of money this year, too.

The admonition to consider costs applies doubly to closed-end funds. After all, the unhappy owner of an open-end can always vote with his feet. But a closed-end investor can get out only by selling to someone else who faces the same drag on performance. So a high-cost fund, even at a discount, may be no bargain. "That assumes there's no value added by management, which is a safe assumption in most cases," says Miami-based closed-end expert Thomas Herzfeld.

Case in point: Sterling Capital, a onetime Value Line fund now 76% owned by insiders who have awarded themselves nice salaries. Last year the five officers of this $17 million fund received $627,000, or 3% of average net assets. They ran up other bills that brought total expenses to 5.7% of assets. Does its performance justify such costs? Hardly. Over the five years through last December the fund delivered an average 11% a year in total return, against the market's 16.4%. The fund is currently trading at a 15% discount to its most recently reported $6.80 net asset value.

Barry Ziskin's Z-Seven Fund is another closed-end with an eye-opening expense ratio, 4.6% in 1986 and 3.2% last year. One contributor to costs is an unusually high 1.25% management fee to Ziskin's advisory firm. That base fee is raised by a performance bonus (or debit) when the fund beats (or trails) the market averages by 10%. Ziskin and colleagues pulled in $643,000, or 3% of average net assets, for excellent performance in 1986, but only $394,000 last year, when they underperformed the market by around 6 points.

Most published expense ratios include interest payments, but in the table below such costs are deducted on the assumption that, unlike other expenses, interest costs can be recouped in higher returns. But such interest payments still warrant close scrutiny. Take the Morgan Grenfell SmallCap Fund, with a 3.6% expense ratio. Another 0.7% pinch came from interest on a $3.4 million loan owed to Morgan Grenfell for underwriting the issue. The loan earned Morgan Grenfell 10% last year. Meanwhile, holders of the SmallCap Fund enjoyed a total return of –19.7%, 25 points worse than the S&P 500 average.

Interest payments also loom large at Engex, managed and partly owned by D.H. Blair & Co.'s Morton Davis, an underwriter of junky new stock issues. As of Sept. 30, 1987, Engex reported net assets of $17.1 million and an expense ratio of 2%, plus interest costs that brought the total expenses to 6.7%. Though Engex' net asset value fell 44% during the market crash, investors did get one unexpected windfall during the 1987 fiscal year. The SEC forced D.H. Blair to return $157,000 to the fund to compensate it for four Blair underwritings illegally purchased for the Engex portfolio.

It's no surprise to learn that two of the lowest-overhead funds, ASA Limited and Lehman Corp., both have a lot of assets over which to spread costs and both predate the management fee inflation of the 1980s. ASA is trading at an attractive 19.7% discount, but it invests predominantly in South African gold stocks, currently out of favor with U.S. investors. Lehman, on the other hand, has no geopolitical problems, so its 13.8% discount and low overhead may be more appealing. ■

Better shop around

Some closed-end funds are no bargain when you look at their overhead. Here, four of the highest cost and two of the most efficient.

Fund	Net assets ($millions)	Expense ratio[1]
Sterling Capital Corp	$17	5.74%
Taiwan Fund	46	3.75
Morgan Grenfell SmallCap	43	3.57
Z-Seven Fund	22	3.22
Lehman Corp	778	0.44
ASA Limited	550	0.24

[1] Management fee and other expenses, excluding interest, divided by average net assets.

Source: Thomas J. Herzfeld Advisors